

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05
CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01
L-03 H-02 PA-02 PRS-01 /111 W
-----151841Z 050891 /43

R 151714Z FEB 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 5652
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL FRANKFURT

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DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS WEEK ENDING FEBRUARY 14

1. APEL AND EMMINGER COMMENTS ON CURRENT SITUATION
OF THE SNAKE:
FOLLOWING THE FEBRUARY 14 MEETING OF THE SNAKE COUNTRY
FINANCE MINISTERS AND CENTRAL BANK GOVERNORS BUNDESBANK
VICE PRESIDENT EMMINGER EMPHASIZED THE NECESSITY OF
KEEPING THE DOLLAR RATE STABLE VIS-A-VIS THE EUROPEAN
SNAKE CURRENCIES. FINANCE MINISTER APEL ADDED THAT
CURRENTLY THERE IS NO REASON FOR ANY ADJUSTMENT OF RATES
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WITHIN THE SNAKE. APEL MAINTAINED THAT SINCE THE
OCTOBER SNAKE REALIGNMENT THERE HAVE BEEN NO INTER-
VENTIONS WITHIN THE SNAKE. APEL WENT ON TO SAY THAT
RECENT SUGGESTIONS FOR REVALUATION OF THE WORLD'S
STRONG CURRENCIES (DOLLAR, YEN AND DEUTSCHEMARK) WERE
UNREALISTIC AND WERE INCONSISTENT WITH RECENT
COLLECTIVE EFFORTS TO ACHIEVE STABILITY. THE RESULT,

APEL STATED, WOULD BE A DEVALUATION OF OTHER OECD CURRENCIES. APEL EMPHASIZED THAT THE GOAL SHOULD BE MONETARY STABILITY AND IN THE CASE OF THE POUND AND LIRA, ECONOMIC DATA INDICATED THAT THEY WERE ALREADY UNDER-VALUED AND SHOULD BE "UPGRADED".

2. FOREIGN EXCHANGE MARKET:

THE DOLLAR WEAKENED AGAINST THE DEUTSCHEMARK DURING THE PERIOD UNDER REVIEW. THE FEBRUARY 14 DOLLAR RATE WAS THE LOWEST SINCE JANUARY 14 OF THIS YEAR. THE BUNDESBANK, FOR THE FIRST TIME SINCE JANUARY 5, INTERVENED IN FAVOR OF THE DOLLAR BUT PURCHASED ONLY \$1.8 MILLION AT THE OFFICIAL FIXING. HOWEVER, BUNDESBANK INTERVENTIONS OUTSIDE THE FIXING WERE REPORTEDLY MUCH HIGHER. THE DOLLAR WEAKENING WAS ATTRIBUTED IN PART TO RECENT PROPOSALS BY LAWRENCE KLEIN TO REVALUE THE DEUTSCHEMARK. MORE RECENTLY THE WEAKENING OF THE POUND MAY ALSO HAVE CONTRIBUTED TO THE DOLLAR DECLINE SINCE THIS MAY HAVE CREATED A FLOW OF FUNDS OUT OF THE U.K. INTO THE FRG WITH THE DOLLAR USED AS THE PRIME VEHICLE CURRENCY. DURING THE REPORTING WEEK FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

	FORWARD DOLLARS				
	SPOT DOLLARS	(IN PCT. PER ANNUM)			
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH

FEB 7	2.4230	2.4239	2.4160	-0.6	-0.7
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8	2.4160	2.4151	2.4115	-0.4	-0.5
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9	2.4135	2.4078	2.4090	-0.4	-0.4
10	2.4035	2.4032	2.4080	-0.3	-0.5
11	2.4070	2.4049	2.4065	-0.4	-0.5
14	2.3975	2.3933	2.3940	-0.4	-0.6
15	2.3940	2.3967	N.A.	N.A.	N.A.

3. MONEY MARKET:

THE GERMAN MONEY MARKET TIGHTENED SOMEWHAT BUT THE CALL MONEY RATE REMAINED BELOW THE 4 1/2 PERCENT LOMBARD RATE. TIGHTENING FACTORS APPEAR TO BE THE BEGINNING OF PAYMENTS FOR THE MID-FEBRUARY TAX DATE AND THE SALE OF MEDIUM-TERM NOTES BY THE FEDERAL GOVERNMENT (SEE PARAGRAPH 5). DURING THE REPORTING PERIOD FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

	CALL MONEY			ONE-MONTH	THREE-MONTH
FEB 7	4.1-4.3	4.30	4.60		
8	4.1-4.3	4.30	4.60		

9	4.3-4.5	4.35	4.70
10	4.2-4.4	4.35	4.70
11	4.1-4.3	4.35	4.70
14	4.3-4.4	4.35	4.70

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4. GERMAN BANK IN DIFFICULTIES:
THE GERMAN BAU- UND BODENBANK A.G., BERLIN-FRANKFURT, IS
IN FINANCIAL DIFFICULTIES. PRINCIPAL OWNERS OF THE BANK
ARE THE FEDERAL REPUBLIC (67 PERCENT) AND THE STATE OF
NORTH RHINE-WESTPHALIA (25 PERCENT). THE BANK IS PRIN-
CIPALLY ENGAGED IN INTERIM FINANCING OF HOUSING CON-
STRUCTION. IT HAS A CAPITAL OF ABOUT DM 100 MILLION,
AND AT THE END OF 1975 ITS BUSINESS VOLUME WAS DM 5.0
BILLION. IT IS THE 22 LARGEST GERMAN COMMERCIAL BANK.
THE FEDERAL GOVERNMENT ADMITTED THAT IN 1976 IT PAID

DM 175 MILLION TO THE BANK IN
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ORDER TO COVER THE BANK'S LOSSES. HOWEVER, ACCORDING TO
SOME PRESS REPORTS, ACTUAL LOSSES OF THE BANK MAY BE
MUCH HIGHER.

5. FEDERAL GOVERNMENT SOLD DM 2.0 BILLION OF MEDIUM-
TERM NOTES:
ON FEBRUARY 9, THE BUNDESBANK, ACTING AS AGENT OF THE
FEDERAL GOVERNMENT, SOLD DM 967
MILLION OF 3-YEAR FEDERAL NOTES BY WAY OF TENDER AND
DM 1,013 MILLION OF 4-YEAR NOTES. THE COUPON OF THE
3-YEAR NOTES WAS 6 PERCENT AND THAT OF THE 4-YEAR NOTES
6 1/4 PERCENT. FOR BOTH TRANCHES THE MINIMUM PRICE
ESTABLISHED BY THE BUNDESBANK (99 PERCENT) WAS OVERBID.
THE 3-YEAR NOTES WERE SOLD AT 99.30 (YIELD TO MATURITY
6.26 PERCENT) AND THE 4-YEAR NOTES AT 99.10 (YIELD TO
MATURITY 6.51 PERCENT).

6. BUNDESBANK FOREIGN POSITION:
FROM FEBRUARY 1 THROUGH 7, THE BUNDESBANK'S FOREIGN
POSITION DECLINED BY DM 0.2 BILLION FROM DM 85.3
BILLION TO DM 85.1 BILLION. THE MAJOR CAUSE OF THE
DECLINE WERE SALES OF DM 150 MILLION OF MONEY MARKET
PAPER TO FOREIGNERS. BOTH THE IMF POSITION AND FOREIGN
EXCHANGE HOLDINGS DECLINED BY DM 10 MILLION. FOREIGN
LIABILITIES INCREASED BY DM 25 MILLION.

7. BANK LIQUIDITY:
DURING THE SAME PERIOD, BANK LIQUIDITY INCREASED BY
DM 2.6 BILLION. THE MAJOR FACTOR INCREASING
LIQUIDITY WERE THE USUAL PAYMENTS BY PUBLIC AUTHORITIES
AT THE BEGINNING OF A MONTH. THIS FORCED THE FEDERAL
GOVERNMENT TO BORROW DM 2.9 BILLION FROM THE BUNDESBANK.
ASSETS OF STATE GOVERNMENTS DECLINED BY DM 0.6 BILLION.
IN ADDITION THE FEDERAL POST OFFICE REDUCED ITS ASSETS
BY DM 1.4 BILLION. FINALLY, A DM 0.7 BILLION DECLINE
IN CURRENCY IN CIRCULATION FURTHER INCREASED LIQUIDITY.
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DITY. OFFSETTING FACTORS INCLUDED THE ABOVE-MENTIONED
DM 0.2 BILLION DECLINE IN BUNDESBANK FOREIGN RESERVES,
A DM 0.4 BILLION INCREASE IN BANKS' HOLDINGS OF MINIMUM RESERVES
AT THE BUNDESBANK AND SALES OF DM 0.3 BILLION OF
MONEY MARKET PAPER BY THE BUNDESBANK. OTHER FACTORS

REDUCED LIQUIDITY BY DM 2.0 BILLION. BANKS USED THE
INCREASE IN LIQUIDITY TO REDUCE LOMBARD BORROWINGS BY
DM 2.5 BILLION TO NEAR ZERO AND
REDISCOUNT BORROWINGS BY DM 0.1 BILLION TO DM 16.1
BILLION.

8. BOND MARKET:
ACCORDING TO THE FINANCIAL PRESS, THE ENTHUASTIC
REACTION TO THE FEDERAL GOVERNMENT'S RECENT 3 AND 4
YEAR NOTE SALE HAS REVIVED THE GERMAN BOND MARKET WHICH

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HAS BEEN DESCRIBED AS LETHARGIC OF LATE. PRICE MOVE-
MENTS WERE MIXED, HOWEVER, AS MODEST INCREASES WERE
REGISTERED IN SOME MATURITIES AND IN OTHERS, PRICES
WERE STABLE. ACCORDING TO THE PRESS, AVERAGE CURRENT
YIELDS ON DOMESTIC BONDS BROKEN OUT BY REMAINING

MATURITY ARE AS FOLLOWS:

REMAINING MATURITY

(YEARS) 1 3 5 7 9 10

YIELD TO MATURITY

FEB 13 5.10 6.40 6.85 7.10 7.20 7.30

FEB 6 5.10 6.45 6.95 7.10 7.30 7.35

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9. CABINET DECISION ON CONTEMPLATED PUBLIC INVESTMENT PROGRAM SCHEDULED FOR THE END OF MARCH: SUBSEQUENT TO A CABINET MEETING, GOVERNMENT SPOKESMAN GRUENEWALD LAST WEEK ANNOUNCED THAT THE FINAL GOVERNMENT DECISION ON THE CONTEMPLATED PUBLIC SECTOR INVESTMENT PROGRAM WILL BE FORTHCOMING AT THE END OF MARCH. ANTICIPATED ARE OUTLAYS FOR "FUTURE-ORIENTED" PROJECTS TOTALLING SOME DM 10 - 12 BILLION SPREAD OVER THREE TO FOUR YEARS, WITH ORDERS IN THE AMOUNT OF DM 3-4 BILLION TO BE PLACED IN 1977. ACCORDING TO GRUENEWALD, THE PROGRAM WILL INVOLVE PROJECTS FINANCED EXCLUSIVELY BY THE FEDERAL GOVERNMENT, WITH THE NECESSARY FUNDS TO BE RAISED ON THE CAPITAL MARKET. IT WILL ALSO COMPRISE JOINT FEDERAL/STATE VENTURES; A "VERY SMALL" PORTION IS TO BE FINANCED JOINTLY BY THE STATES AND MUNICIPALITIES. THE PROGRAM IS TO BE KEPT SUFFICIENTLY FLEXIBLE TO PERMIT APPROPRIATE ADJUSTMENTS IN CASE OF CHANGES IN THE UNDERLYING BUSINESS SITUATION OR CAPITAL MARKET CONDITIONS, GRUENEWALD SAID. STOESEL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
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Concepts: ECONOMIC CONDITIONS, FOREIGN EXCHANGE RATES, ECONOMIC DATA
Control Number: n/a
Copy: SINGLE
Sent Date: 15-Feb-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Drafter: n/a
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Errors: N/A
Expiration:
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Format: TEL
From: BONN
Handling Restrictions: n/a
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Legacy Key: link1977/newtext/t19770242/aaaabkxw.tel
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Litigation Codes:
Litigation History:
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Office: ACTION EUR
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Review Action: RELEASED, APPROVED
Review Content Flags:
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Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3323785
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL DEVELOPMENTS WEEK ENDING FEBRUARY 14
TAGS: EFIN, GE
To: STATE TRSY
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/3f4acec6-c288-dd11-92da-001cc4696bcc
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